

SHORT TAKES

FINANCIAL AID

Decentralizing Virginia's Public Universities

The budget crisis that swept through most state capitals the past three years took its toll on higher education funding, pushing public universities to find ways to cope with budget shortfalls. Tuition rates have increased as much as 125 percent since 1990, and many institutions have sought additional funds through corporate partnerships. A few public universities have even privatized.

The Fifth District is no exception. To counter a shrinking state budget, the University of Virginia, the College of William and Mary, and Virginia Tech have engineered the "Commonwealth Charter Universities Initiative," a legislative proposal that would grant the institutions more autonomy in exchange for less state funding.

In other words, after the 2005 General Assembly, these three public universities may get charter status — no longer public, but not technically private, either. By giving up a percentage of future state funding, a chartered university would be granted greater freedom over its finances — including the flexibility to raise tuition as its Board of Visitors sees fit. Increased autonomy also would significantly reduce the inefficiency and expense associated with bureaucratic regulation.

Though they would no longer be state agencies, the universities would not be private institutions either. According to Virginia Tech President Charles W. Steger, as quasi-independent "political subdivisions," chartered universities would remain "public institutions with boards of visitors appointed by the governor, confirmed by the General Assembly, and accountable to the commonwealth."

L. F. Payne, a member of the Board of Visitors at UVA, believes the Charter Initiative is absolutely necessary. UVA's state appropriation is "by far the lowest as a percentage of any state university of the nation, and that number continues to decrease." With charter status, UVA will better be able to meet future financial challenges, and "stay a top-quality university and provide the high-quality education that kids in Virginia and other places are demanding.

"I think the beneficiaries of this will be the employees, the faculty, the students, and the institutions," Payne says. "It seems to me they're all winners."

But not everyone feels like a winner. The Charter Initiative proposes big changes that will affect many parties, and not all the changes will provide clear benefits.

For students, less state money means tuition may go up considerably. However, all three universities plan to exercise some of their new freedom by implementing financial aid programs that will meet the needs of their students. UVA, for example, will introduce Access UVA, which university officials expect will actually increase the number of Virginians (currently two-thirds of the student body) able to attend UVA.

Jan Cornell, president of the Staff Union at UVA (SUUVA), regards the Charter Initiative with little enthusiasm. She has many reservations over the terms of future personnel policies if UVA becomes chartered.

"I understand the problem — the state is not giving them enough money. I totally agree with that, but ... I don't think [pulling away] is the answer to the funding problem. The reasons for pulling out allow them to have freedoms that aren't necessarily good for the employees."

Cornell's concerns are the result of observing employee experiences at UVA's Medical Center, which

gained autonomy in 1996. "We've seen what happened to them. And that's why we're so against it now," Cornell says. Tremendous turnover rates, depressed wages, and inadequate working conditions are cited to have characterized the years following the privatization of the Medical Center.

The administration's actions during the past year have failed to alleviate Cornell's frustrations that history may repeat itself. "When this all started,

Leonard Sandridge said that the employee input would be critical when they were writing the plan ... [but] nobody came to any employee or faculty member to find out what [we] thought about it before they wrote the plan."

SUUVA's worries are exacerbated because definitive answers concerning wages and working conditions are hard to come by. "Unfortunately, there can't be any guarantees," says Payne. "No one has enough information to be able to say precisely what we can guarantee at this point. ... But the institution is no better than the people who are there ... and



University of Virginia's famed Rotunda. A statue of Jefferson stands as a reminder of his founding ideal of an "academical village."

the idea is that [the charter] will ... be able to improve the compensation and benefits for employees.”

Fortunately, UVA has a second model of decentralization to draw on. With the approval of the “Financial Self Sufficiency” agreement, the Darden Graduate School of Business Administration gained financial autonomy from UVA in 1998, under the tenure of ex-dean Edward A. Snyder.

“I can state for the record that the Financial Self Sufficiency [agreement] we developed ... was important, and in my view, successful,” says Snyder, who is now dean at the University of Chicago Graduate School of Business. “Without this agreement, Darden could not have made the decision to grow its MBA program; it hadn’t done so in over two decades.” While some argue Darden’s goal is now the pursuit of money at the cost of learning, there is no arguing with Darden’s performance in *Business Week*’s annual rankings of MBA programs; UVA has risen dramatically since the change.

“I know enough about UVA to say that reform is needed,” says Snyder.

According to Kevin Hall, Virginia Gov. Mark Warner’s deputy press secretary, “The Governor ... expects this to be one of the more high-profile issues [in 2005] when the legislature convenes. It’s a discussion that’s not going to be resolved quickly.”

There is a lot riding on the progress of the Charter proposal. “[It is] such a fundamental shift in the status of the institutions which enjoyed world-class reputations based on decades — if not hundreds of years — of support from the commonwealth of Virginia,” Hall declares.

While a charter is certainly a method that holds a lot of promise for students, employees, and the commonwealth as a whole, what remains to be seen is if these universities can prove that their new financial freedoms won’t adversely affect Jefferson’s founding ideal of an “academical village,” dedicated to the values of an open and diverse intellectual community.

— JENNIFER WANG

DOLLARS FOR DELL

Incentives Help Lure Company to Winston-Salem

Computer maker Dell Inc. grabbed headlines in North Carolina last fall for accepting what was billed as the largest incentive package in state history — \$242 million in tax credits, grants, and infrastructure improvements. In return, the Austin, Texas-based firm promised to spend \$100 million building a manufacturing plant on the outskirts of Winston-Salem that will employ at least 1,200 people within five years. (In addition to the state incentives, Dell was set to reap \$37.2 million in local city and county incentives.)

The Triad metro area, of which Winston-Salem is a part, has been among the worst hit manufacturing regions in the nation, losing about 40,000 such jobs over the past decade. Still, the Triad’s unemployment rate has not risen sharply; it

stood at 4.8 percent last fall. Dell said it chose the region not so much for the incentives package as it did for its skilled pool of manufacturing workers and strategic location. This gave rise to complaints that the Dell incentives were overly generous, especially in light of news uncovered by the *Raleigh News & Observer* that a relatively small bid by Virginia posed the only competition to North Carolina.

Ray Owens, an economist at the Federal Reserve Bank of Richmond, has studied the wider issue of whether corporate incentives make sense. He came away with an answer that may surprise critics of incentives: They can sometimes serve a greater good. Whether that’s the case with Dell’s deal in North Carolina won’t be known for a while.

Owens says that in some cases incentives can make a difference in luring companies to regions where workers are in desperate need of jobs, and as a result both the organization and the economically struggling community benefits. “Incentives can be costly, but you can end up with a net benefit to the state and even nation as a whole,” Owens says.

Where the matter gets fuzzy is in estimating both the deal’s actual costs and benefits in dollars. For starters, calling the Dell agreement a \$242 million package isn’t accurate, Owens says. The various perks being offered to Dell are rolled out over 15 years, and in 15 years the value of a portion of those resources won’t be worth the same as in today’s dollar terms. On the flip side, take with a grain of salt the governor’s and Commerce Department’s assertion that new taxes generated by the new plant will rise to \$743 million.

“I don’t think you can say out of hand that it’s a bad deal for North Carolina. At the same time, you can’t declare it a slam dunk deal,” Owens says. “It’s not clear who’s right or wrong. But it is fair to say that all these dollar estimates have a lot of uncertainty associated with them.” — DOUG CAMPBELL

HIGH-END HOLDOUT

Northeast Textile Maker Finally Migrates South

Amid thousands of job losses in South Carolina’s textile industry over the past decade, there is one small bright spot on the horizon. Scalamandr , a New York City-based luxury fabrics producer that was one of the few textile firms remaining in the Northeast, will be bringing 90 jobs to the Palmetto State this year. Many companies before it have migrated south since the turn of the 20th century in pursuit of inexpensive labor and other economic advantages. After 75 years, Scalamandr  is finally moving from an old brick building in Queens to a more modern facility in Gaffney, S.C., for the same reason.

The company weaves silk and other fine materials into handmade fabrics, which are crafted into drapery, wall coverings, upholstery, and other furnishings. Its products adorn public and private spaces throughout the United States, from the White House to the Metropolitan Opera House to Thomas Jefferson’s home, Monticello. Yet even

a producer of such high-end, specialty textiles — some of which are sold to designers for as much as \$2,000 a yard — eventually had to look at lowering costs and maximizing efficiency just as producers of commodity-type textiles have done for years.

For Mark Bitter, Scalamandr 's co-president, this meant relocating most of the company's manufacturing operations out of New York City. "Our gross margins were such that we could ... tolerate the high labor and occupancy costs far better than most textile producers who make commodity-type products," Bitter says. But the company's sales volume has fallen, partly due to a drop in luxury purchases after the Sept. 11 terrorist attacks and partly due to growing global competition.

"The only way we could compete effectively was by availing ourselves of the absolute best technology to produce the finest quality at the lowest cost," he says. "There is a limit to what even luxury buyers are willing to spend on products."

Why didn't Scalamandr  just modernize its Queens facility? The company needed 150,000 to 200,000 square feet of manufacturing space spread out horizontally on one level, but had only 115,000 square feet stacked on multiple floors. It couldn't tear the existing building down or relocate elsewhere in New York City because land is expensive and limited in supply, and many commercial buildings are vertically oriented.

In contrast, Gaffney and other parts of Upstate South Carolina have few densely populated communities, so there is plenty of open space. For instance, the building that Scalamandr  will move into is a former textile facility measuring 350,000 square feet. And the company will save 60 percent to 70 percent on its occupancy and related expenses, according to Bitter.

He also expects to reduce per-unit labor costs by 40 percent. Most of the Queens facility's laborers had worked there for 10 years or more, putting them at a higher union pay rate. Moreover, the Gaffney facility will tap into a labor market in Cherokee County where the unemployment rate last September hit 9.6 percent, almost three points higher than the statewide rate.

However, even Bitter knows that these cost savings may not be enough to keep his company from turning to outsourcing overseas. Scalamandr  will also have to continue to innovate and improve the quality of its goods. As for textile workers in South Carolina, they will have 90 more jobs available to keep them in the industry that is in their blood. But while that employment figure could double in the future, it still falls short of the 480 positions that used to exist at the Gaffney plant before National Textiles shut it down in 2001. In short, economic forces will continue to challenge America's textile industry to be leaner and meaner.

— CHARLES GERENA

INSOURCING

Foreign Firms Set Up Shop in America

Amid the alarm over the rampant outsourcing of American jobs to countries abroad, a lobbying group for foreign companies would like to call your attention to a contrary trend: insourcing.

The Organization for International Investment (OFII) says that foreign firms employ 5.4 million people in this nation, or 5 percent of private sector jobs. Four states in the Fifth District rank in the top 20 for having the greatest number of jobs that are "insourced," bankrolled by U.S. units of foreign companies. North Carolina has 212,700 such insourced occupations, the OFII says, placing it at No. 9 in the country. Other top-rankers include Virginia (No. 13 with 146,400 jobs), South Carolina (No. 16 with 123,400 jobs) and Maryland, (No. 19 with 106,300). Not surprisingly, California topped all states with 616,400 insourced jobs.

The OFII claims that foreign firms pay U.S. employees "higher compensation than domestic U.S. firms." They are also active in funding research and development, physical facilities (which add to tax bases) and international trade (goods made in the United States are de facto domestic exports, no matter that they were made under the auspices of foreign firms).

"The bottom line is that insourcing companies improve the performance of the U.S. economy," writes Matthew J. Slaughter, a professor at the Tuck School of Business at Dartmouth College, and author of the OFII's report. "It is important that government

officials and the business community understand the contribution of insourcing companies, and that these officials formulate policy accordingly."

In other words: Don't make it harder for foreign firms to locate here. Among the policy recommendations OFII presses at the report's conclusion is to ensure equitable treatment of insourcing companies. "For insourcing companies to continue expanding in the United States, they must know they will receive nondiscriminatory treatment under U.S. law." Equally, the group calls for liberalized trade and investment rules. Otherwise, OFII warns, the United States could lose many of these insourced jobs to India and China. Sound familiar?

Back in the late 1980s, University of South Carolina economist Douglas Woodward co-wrote a book about insourcing called *The New Competitors: How Foreign Investors Are Changing the U.S.* His conclusion then and now remains the same: Insourcing is imperative in a time of outsourcing, and there are few disadvantages to having



German automaker BMW's manufacturing plant in Greer, S.C., has created 17,000 jobs, directly and indirectly, since opening in the mid-1990s.

foreign companies employ U.S. workers versus having U.S. companies employ them.

"Multinational corporations have competitive advantages they can bring to an area that certainly go beyond job creation," Woodward says. "They bring in new management expertise and techniques. They infuse a region with more competitive practices. Every area successful in the world, from Ireland, Singapore and even less developed nations like Costa Rica — for them foreign direct investment has been a major driving force in moving their economy forward."

In South Carolina, the 1992 decision by German automaker BMW to build a plant has resulted in 17,000 jobs, directly and indirectly, Woodward says, somewhat offsetting the painful losses in local textile jobs to low-cost countries and new technology.

The large appetite of U.S. consumers serves as potent draw to foreign firms but more can always be done. Providing educated and skilled workforces along with good roads, airports, and sea ports is crucial, Woodward says. Strong incentive programs can also make a difference, he says.

And then there's the sliding value of the U.S. dollar. "If I were a state or local economic development official, I'd be beating down the door in Europe to say look at how cheap it is to get into the U.S. market," Woodward says. "If they want to take advantage of this opportunity, there couldn't be a better time."

— DOUG CAMPBELL

BLUE CRAB RANCHING

Restoring the Chesapeake Bay's Most Valuable Commodity

Fifth District researchers are pursuing a new approach to helping the blue crab, a symbol of the Chesapeake Bay and its most valuable seafood product. By boosting the bay's breeding stock with young crabs hatched and raised in captivity, they hope to reverse a decades-long decline in the overall crab population. If their experiment succeeds, watermen in Maryland and Virginia could take nature into their own hands to help safeguard their economic futures.

Restocking programs have been used to revive marine populations many times, from salmon on the West Coast to trout in the Great Lakes. But such programs are rare for crustaceans and other species with a high rate of reproduction. Since their offspring have a low probability of survival, these creatures produce millions of larvae, thus making any restocking effort difficult.

"Blue crabs spawn in the southern part of the bay and the eggs are hatched offshore in the [Atlantic] Ocean," says Douglas Lipton, a University of Mary-

Watermen may soon cultivate and release these juvenile blue crabs to restock the Chesapeake Bay.



land economist who contributes to the Chesapeake Bay Commission's Blue Crab Technical Work Group. "They have to survive that and get back into the bay, find nursery grounds and survive being eaten by all sorts of fish in order to become an adult."

Therefore, any effort to restock the blue crab population has to go beyond just hatching eggs, dumping larvae into the ocean, and hoping for the best. Japanese scientists released tens of millions of larvae to boost the number of swimming crabs for almost 20 years, until they realized that it probably wasn't working. In the 1990s, they started raising crabs to an older age before releasing them in order to give them a better chance of staying alive and breeding.

Along with the Smithsonian Environmental Research Center (SERC) and the Virginia Institute of Marine Sciences, researchers at the Center of Marine Biotechnology (COMB) in Maryland took this second step from the very beginning. Using its expertise in spawning, production biology, and the early life stages of marine organisms, COMB converted a basement in downtown Baltimore into a carefully controlled environment where female blue crabs can hatch eggs and the larvae can develop into 2-month-old juvenile crabs.

Juveniles are less than an inch in length and have soft, translucent shells. Since they have bypassed a tough part of their lives in captivity, however, more of them are around to progress from adolescence to sexual maturity. In the last three years, 100,000 juveniles have been released into the Chesapeake Bay. They appear to have a similar survival rate from adolescence to breeding age as native crabs do.

Whether helping nature along will replenish the bay's blue crab population remains to be seen. The effectiveness of Japan's restocking efforts has been difficult to gauge due to a lack of data. To judge the progress of blue crab restocking, SERC scientists tag juveniles and track them for up to 14 weeks after their release.

If the restocking approach works, the next step is to modify it so that watermen throughout Chesapeake country can raise crabs and release them on their own. Getting them on board will require continued confidence building on the part of scientists, though. Watermen are traditionally fatalists who believe that nature governs the workings of the bay.

Could watermen be right about letting nature take its course? Allowing the total supply of blue crabs to continue to fall would put upward pressure on prices, which would eventually reduce the quantity of crabs consumed and level off the amount of harvesting. "That is the market working. But what's happening with the biology? At that point, have you gone past some critical level where the [blue crab] stock will take years to rebuild?" asks Lipton.

— CHARLES GERENA

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